

Blockchain benefits identified for insurers



Participants in the “Bermuda on Blockchain” symposium panel on insurtech and blockchain included (left to right): Todd Link (Berkshire Hathaway Specialty Insurance), Arthur Wightman (PwC Bermuda), Arun Balakrishnan (Xceedance), and Anthony Belfiore (Aon).

Blockchain will most noticeably impact the insurance industry on the support side of companies, helping them reduce inefficiencies and consequently improve expense ratios, according to Arun Balakrishnan, chief executive officer of Xceedance.

Xceedance provides consulting and managed services, technology and data sciences to the insurance organisations. Mr Balakrishnan was one of four speakers on a panel that discussed the insurtech environment during the Bermuda on Blockchain symposium.

An example of an insurer harnessing efficiencies through new technologies is Berkshire Hathaway Specialty Insurance. As a relatively new company with only a five-year history, it has been able to build itself “different from everyone else”, explained Todd Link, chief operating officer and chief financial officer.

“We have focused on things in the insurtech world around optimisation. I call it the efficiency frontier. Things like artificial intelligence, robotics, and machine learning is where we have been making our investments from an insurtech perspective,” he said.

“We’ll continue to focus on the opportunities in insurtech. Our approach though is we are not going to be the first mover, we are going to be a fast follower. It is rooted in ‘we’ve got to get it right.’”

Mr Link identified blockchain technology as presenting a lot of “compelling use cases” within the insurance market.

However, the road ahead will need to be a collaborative one for the industry. That was a view expressed by another member of the panel, Anthony Belfiore, chief security officer at Aon.

He said: “It is one of those cases where it is going to take a village — an ecosystem of partners, professional services firms and tech to bring to bear the right set of variables and equations.”

Fellow panellist Arthur Wightman, PwC Bermuda Leader, said: “The nut needs to be cracked by a huge amount of collaboration, and that is among carriers and experts, including the technology industry. And while there is evidence of some of that having happened, that wholesale collaboration is a big step change for the industry. Once it starts the speed that technology is applied will be increased.”

Mr Link expanded on the collaboration angle by saying that large insurers have historically been reluctant to invest in technology. He alluded to the belief that “if you build it, they will come” — a central message in the 1989 movie *Field of Dreams*.

Mr Link said: “No insurer wants to do that because you are going to invest a tremendous amount of money, time and effort building a platform before you have revenues to support the platform.”

Instead of that proactive route, the industry — from an operational IT perspective — is reactive, “so as the business grows and moves into different directions, you simply throw a solution at it”, according to Mr Link. He added: “The large insurance companies have multiple policy systems, multiple claims systems, none of them speak to each other; you don’t have one source of the truth, and you have a gigantic spaghetti ball that’s really hard to manage.”

Meanwhile, Aon’s Mr Belfiore said insurance companies need seriously consider insurtech advances, such as blockchain, otherwise “we are all going to be on borrowed time in the next ten or 15 years”.

He added: “Insurance is not going to go away. What I am saying is market share will be able to be gathered through some of these innovative things.”

Following up on that, Berkshire Hathaway’s Mr Link said: “Insurance has been around for thousands of years and will be around for thousands of years more. That’s not to say insurers will be around. The carriers need to be innovative, they need to compete.

“If you think about what is really going to transform the way in which we all conduct business — the best example is to look to what the investment world did.”

As an example he mentioned the DTC [Depository Trust Company], one of the world’s largest securities depositories, with a common platform where transactions follow a universal format. Against that, he compared the relationship between Berkshire Hathaway Specialty Insurance and companies such as Aon, Marsh, and JLT, where submissions are received “in hundreds of different formats”, which he said was highly inefficient.

“We are trying to create optimisation based of off this suboptimal model. Anthony’s point is right, if we can all go to a homogenous platform where it is straight-through processing, with very little human touch,” he said.

“Brokerage fees will come down, it will become more commoditised. Capital will mean less, expertise will matter more, brokers will become more of an advisory service than a transactor of business. In my estimation that’s where the insurance marketplace will really transform — if you get to this common platform.”

An opening keynote speech was given by David Edwards, CEO of ChainThat. His company provides commercial and speciality insurance and reinsurance solutions using smart contracts and distributed ledger technologies, including blockchain.

Describing the impact blockchain can have for insurers and reinsurers, he said it could remove frictional costs by reducing the need for manual data inputting and multiple checks and data accounting between parties.

He said blockchain can help streamline back-office processes, and added: “Blockchain is in effect an enabling platform for co-ordination between parties providing data certainty and business processes.”

A low friction ecosystem can be created using smart contracts and distributed ledgers, Mr Edwards explained. He said it is possible to commoditise in the small or medium-sized enterprise market, where there is a high level of human interpretation and interaction, “by simplifying and defining products with tighter rules and boundaries, allowing for simpler reinsurance placement and management of exposure”.

The Bermuda on Blockchain symposium was held at the Bermuda Underwater Exploration Institute. It was hosted by Re-Insurance.com, in partnership with Xceedance and ChainThat, and in association with the Bermuda Business Development Agency.